

VZCZCXRO7467  
RR RUEHDE  
DE RUEHAD #0239 0711149  
ZNR UUUUU ZZH  
R 121149Z MAR 09  
FM AMEMBASSY ABU DHABI  
TO RUEHC/SECSTATE WASHDC 2235  
INFO RUEHDE/AMCONSUL DUBAI 8191

UNCLAS ABU DHABI 000239

SENSITIVE  
SIPDIS

E.O. 12958: N/A

TAGS: [ECON](#) [EFIN](#) [ETRD](#) [AE](#)

SUBJECT: UAE RETAIL SALES DECLINE WITH CONSUMER CONFIDENCE

¶1. (SBU) SUMMARY: The local impact of the global financial crisis has contributed to weakening UAE consumer confidence. As sales fall, retailers have cut prices for essential goods, diesel, used cars, and luxury goods. Emirati nationals report they are delaying purchases with the hope prices will decline further, while expatriates say they are cutting expenditures in response to general economic uncertainty. Some retailers have cut prices in an effort to stimulate consumption, although others hope demand will recover. End Summary.

¶2. (SBU) Like consumers elsewhere, Emirati and expatriate contacts report they are postponing major purchases in response to economic uncertainty. While Emiratis are delaying with the hope prices will decline further, expatriates say they are affected by weak global consumer confidence and general uncertainty about their own economic situation and, in some cases, future in the UAE. Although inflation has fallen from the double digit rates of early 2008, Minister of Economy Sultan Al Mansouri recently reported 2009 inflation is still expected to exceed five percent. Thus, many consumers continue to complain the price of everything from food to housing is high and rising.

¶3. (SBU) Weak consumer confidence, and falling global commodity prices, have had a notable effect on local retail sales and prices. Along with falling real estate prices, the prices of some essential goods, fuel and some durables goods began to decline in mid-2008. According to the Abu Dhabi Department of Economy and Planning Statistical Center Price Index, prices of over 40 percent of essential goods decreased in January 2009 by 4 to 10 percent. Dubai-based oil retailers Emirates General Petroleum Corporation (EMARAT), Emirates National Oil Company (ENOC) and Emirates Petrochemical Products Company (EPPCO) have reduced diesel prices 15 times from a July 2008 high of Dh 19.25 (USD 5.24) per gallon to Dh 10.10 (USD 2.75) today.

¶4. (SBU) While some price cuts are a result of government efforts to combat inflation, local retailers report they have cut prices in response to declining sales. A sales executive from Paris Gallery, the leading luxury retailer, said sales dropped about 30 percent since January 2009. As a result, they have reduced their prices 10 to 15 percent. Similarly, used-car prices in Abu Dhabi have fallen around 20 percent since December 2008. The General Manager of Al-Otaiba Group, an Abu-Dhabi based retailer for Land Rover, Isuzu, Chevrolet and Cadillac vehicles and spare parts, claimed that their business was not affected. However, Dubai-based General Motors Middle East noted to the Consul General that retail sales of their main UAE brands (Chevrolet, Cadillac, GMC) were trending down from last year on a month-by-month basis, despite stepped up marketing and attractive financing offers, as were all new cars sales with the exception of Hyundai and Kia, whose dramatic price cuts have upped their retail sales.

¶5. (SBU) Comment: While consumers welcome declining retail prices, falling sales represent another indication the UAE economy is feeling the impact of the global financial crisis. Along with cancelled construction projects, redundancies and tight liquidity, declining retail profits suggest the economic slowdown will continue through 2009. End Comment.

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